

REPORT OF EXAMINATION  
OF THE  
  
CONSELHO SUPREMO DA  
SOCIEDADE DO ESPIRTO SANTO  
(S.E.S.)  
  
AS OF  
DECEMBER 31, 2005

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San Francisco, California  
May 4, 2007

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CONSELHO SUPREMO DA SOCIEDADE DO ESPIRITO SANTO (S.E.S.)

(also referred to as the Society) at its home office located at 733 Benton Street, Santa Clara, California 95050.

SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The present examination included a review of the Society's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Society's operations were reviewed including the following areas that require no further comment: Society history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of Society; business in force by states; mortality and loss experience; accounts and records; and sales and advertising.

## MANAGEMENT AND CONTROL

The legislative and governing body of the Society is the Supreme Council. The Supreme Council is composed of supreme officers; supreme board of directors; supreme finance committee; past supreme presidents; ex-supreme officers; honorary supreme officers; spouse of the supreme president; spouses of record during the term of presidency of past supreme presidents; supreme junior officers; supreme junior directors; past supreme junior presidents (who are under the age of 25); and the delegates of the subordinate councils elected and with power to act. Representation at the annual session is on the basis of one delegate for every 35 members.

Between sessions of the Supreme Council, management is vested in a nine-member board of directors. Directors are elected annually for a term of one year. A person may serve as a director for five years, after which, he or she must wait for two years before being considered for reelection.

All directors and officers are elected during the annual session except the supreme secretary-treasurer and the assistant supreme secretary-treasurer, who are appointed by the supreme board of directors. Directors and officers elected during 2005 and serving as of December 31, 2005 are as follows:

### Board of Directors

<u>Name and Residence</u>	<u>Principal Occupation</u>
Gene G. Santos, Chairman National City, California	Retired
Tony F. Machado, Vice Chairman Delhi, California	Farmer
Martin F. Louro, Secretary Modesto, California	Teacher

Board of Directors - continued

<u>Name and Residence</u>	<u>Principal Occupation</u>
James J. Carvalho Crows Landing, California	Self-Employed Dairyman
Luisiana Drumonde Newman, California	Banker
Carole Hamilton Maxwell, California	Homemaker
Mary L. Laranjo Palmdale, California	Homemaker
Joe A. Machado Merced, California	Self-Employed Dairyman
Frances J. Rocha Modesto, California	Self-Employed Dairyman

Principal Officers

<u>Name</u>	<u>Title</u>
Antoinette F. Duarte	Supreme President
Frank F. Silva	Supreme First Vice President
Robert O. Nolte	Supreme Second Vice President
Christine M. Fritzler	Supreme Third Vice President
Sueli M. Almeida	Supreme Secretary-Treasurer pro-tem

TERRITORY AND PLAN OF OPERATION

The Society operates under a lodge system as described under Division 2, Part 2, Chapter 10, of the California Insurance Code. The Society is licensed to transact life, annuity and disability business in the State of California.

The Society has 54 subordinate councils, which are located throughout the State of California. The majority of the members are located in the San Joaquin Valley.

The Society writes life insurance, individual annuities and some accident and health insurance. New members are acquired through the efforts of current members and through the special efforts of the Supreme President. During the term of office, the Supreme President visits all of the councils throughout the state.

Premiums written in 2005 totaled \$1,088,319 of which \$545,401 (50%) was life premiums and \$542,918 (50%) was annuity premiums.

Commissions are not paid for the acquisition of new business, although the Supreme President receives a mileage and expense allowance and the use of the Society's automobile.

All operating functions are performed at the Society's home office.

The Society loses about 470 members per year through death or cashing-in of special whole life policies. The Society has approximately 16,111 members.

## REINSURANCE

### Assumed

The Society did not assume any reinsurance during the examination period.

### Ceded

As of December 31, 2002, the Society reinsures its business with Optimum Re Insurance Company (Optimum Re) of Dallas, Texas, on an automatic yearly renewable term basis. Automatic reinsurance applies to all of the Society's products subject to certain conditions. The Society's maximum retention on individual life and waiver of premium benefits is \$10,000. Optimum Re

accepts up to four times the Society's retention, to a maximum cession of \$40,000. All cases that are not eligible for automatic coverage may be submitted to Optimum Re on a facultative basis. The facultative reinsurance limit on individual life and waiver of premium benefits is \$1 million. On individual accidental death benefit (ADB) policies and riders, Optimum Re assumes all risks, but not to exceed the maximum issue limit of reinsurance per life. No automatic coverage is accepted if the total ADB coverage in-force and applied for exceeds the maximum participation limit. The ADB retention and reinsurance limits are as follows: Society's retention \$0; maximum issue limit \$300,000; maximum participation limit \$300,000; and a maximum amount reinsured per insured life \$300,000.

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Surplus Account for the Year Ended December 31, 2005

Reconciliation of Surplus from December 31, 2002 through December 31, 2005

Statement of Financial Condition  
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$12,366,304	\$	\$12,366,304	(1)
Preferred stocks	6,323,353		6,323,353	(1)
Mortgage loans on real estate	1,210,926		1,210,926	
Real estate:				
Properties occupied by the Society	627,131		627,131	
Investment real estate	1,243,146		1,243,146	
Contract loans	42,116		42,116	
Cash and short-term investments	1,503,178		1,503,178	
Electronic data processing equipment and software	575,762	575,762		
Investment income due and accrued	400,822		400,822	
Other assets nonadmitted	<u>14,248</u>	<u>14,248</u>	<u></u>	
Total assets	<u>\$24,306,986</u>	<u>\$ 590,010</u>	<u>\$23,716,976</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$19,296,622	(2)
Aggregate reserve for accident and health certificates			36,359	
Liability for deposit-type contracts			734,296	
Certificates and contract claims: Life			135,827	
Premiums and annuity considerations received in advance			224,162	
Interest maintenance reserve			53,590	
General expenses due or accrued			57,000	
Amounts withheld or retained by Society as agent or trustee			876	
Asset valuation reserve			<u>437,466</u>	
Total liabilities			20,976,198	
Aggregate write-ins for surplus funds		\$ 62,463		
Unassigned funds		<u>2,678,315</u>		
Total surplus and other funds			<u>2,740,778</u>	
Total liabilities, surplus and other funds			<u>\$23,716,976</u>	



Summary of Operations and Surplus Account  
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	\$1,088,319
Net investment income	1,708,011
Amortization of interest maintenance reserve	8,894
Aggregate write-ins for miscellaneous income	<u>9,053</u>
Total	<u>2,814,277</u>
Deduct:	
Death benefits	62,582
Matured endowments	3,262
Annuity and old age benefits	187,042
Disability, accident and health benefits	3,362
Surrender benefits	92,037
Interest and adjustments on contract or deposit-type contracts funds	112,932
Increase in aggregate reserve for life and accident and health certificates and contracts	1,240,390
General insurance expenses and fraternal expenses	774,770
Insurance taxes, licenses and fees	<u>25,473</u>
Total	<u>2,501,850</u>
Net income	<u>\$ 312,427</u>

Surplus Account

Surplus, December 31, 2004	<u>\$2,982,349</u>
Net income	312,427
Change in nonadmitted assets and related items	(83,299)
Change in reserve on account of change in valuation basis	(410,000)
Change in asset valuation reserve	<u>(60,699)</u>
Net change in surplus for the year	<u>(241,571)</u>
Surplus, December 31, 2005	<u>\$2,740,778</u>

Reconciliation of Surplus  
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination		\$3,882,082
	<u>Loss in Surplus</u>	
Net loss	\$ 254,835	
Change in nonadmitted assets and related items	302,907	
Change in asset valuation reserve	155,119	
Change in reserve on account of change in valuation basis	<u>428,443</u>	
Total losses	<u>\$1,141,304</u>	
Decrease in surplus for the period under examination		<u>1,141,304</u>
Surplus, December 31, 2005, per Examination		<u>\$2,740,778</u>

## COMMENTS ON FINANCIAL STATEMENT ITEM

### (1) Bonds and Preferred Stocks

The Society's securities were not held at a qualified custodian as required under California Insurance Code Section 1104.9. The Society is currently researching transferring their securities to Union Bank of California.

### (2) Aggregate Reserve for Life Certificates and Contracts

The Society's reserve trends were reviewed by a California Department of Insurance life actuary and found to be consistent and reasonable.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Comments on Financial Statement Items – Bonds and Preferred Stocks - (Page 9): The Society's securities were not held at a qualified custodian as required under California Insurance Code (CIC) Section 1104.9. It is recommended that the Society transfer its securities to a qualified custodian.

### Previous Report of Examination

Comments on Financial Statement Items – Bonds - (Page 9): It was recommended that the Society properly report preferred stocks in Schedule D, Part 2. The Society is now in compliance.

Comments on Financial Statement Items – Real Estate - (Page 9): It was recommended that the Society develop a depreciation method that would exclude the value of the land. The Society is now in compliance.

Comments on Financial Statement Items - Certificate and Contract Claims - (Page 9): It was recommended that the Society comply with CIC Section 10172.5 by paying interest on death claims not settled within 30 days after the date of death. The Society is now in compliance.

Comments on Financial Statement items – Premiums and Annuity Considerations Received in Advance - (Page 10): The Society mingled renewal premiums with the Society's fees. As a result, its renewal premiums and advance premiums reported in the Annual Statement was slightly overstated. It was recommended that the Society take corrective action on this matter. The Society has changed its billing to separate the premiums and fees.

#### ACKNOWLEDGMENT

The cooperation and assistance extended by the Society's officers and employees are acknowledged.

Respectfully submitted,

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Jennifer Edie, AFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California